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SHADOW ECONOMY IN UKRAINE AND METHODS OF COMBATING IT

The shadow economy (hidden, informal) is an economic activity that is hidden from society and the state, which is outside of state control and registration [1]. It is an unobservable, informal part of the economy, but does not cover it all, since it can't include activities that are not hidden specifically from society and the state, for example, home or communal economies. It also includes illegal, criminal types of economy, but isn't limited to them.

The shadow economy shows the economic relations that develop spontaneously, by passing existing state laws and social rules, usually by means of hidden incomes and not taxable economic activities. In fact, any business, the result of which is the concealment of revenues from state bodies, or tax evasion, can be considered as a shadow economic activity. The shadow economy can also be described as a combination of different types of economic relations and unaccounted, unregulated and illegal types of economic activity. But, first of all, the shadow economy is hidden production, distribution, exchange and consumption of commodity-material values, money and services. In this case, we are dealing with a very complex economic phenomenon, which is more or less inherent in any type of social systems. The level of shadow economy in Ukraine is significant nowadays and make about 40% of the official GDP [2]. Although the degree of accuracy of this figure is arbitrary, this does not detract the necessity of reduction of the shadow sector.

The state influences the shadow economy in the following ways:

1) The state strategy of socio-economic development of the country determines the main parameters of the national economic model. This model is a system within which the shadow economy will function. The specificity of national economic model imposes a significant imprint on the scale and forms of the shadow economy. Important elements of the state strategy of social and economic development in relation to the shadow economy are:

minimizing the shadow economy is one of the strategic goals; formation of the basic macroeconomic parameters of the national economy on the basis of fair competition; effective antimonopoly regulation; fixing the maximum acceptable scale of the shadow economy.

2) Commercial legislation outlines the field of legitimate business activities. It creates certain incentives for the development of good business practices and implies sanctions for violations of existing norms. Important elements of commercial legislation are: acceptable level of taxes and customs duties; transparency of financial activities of economic entities; simplified forms of registration and reporting; responsibility of banks to depositors.

3) Social policy is aimed at improving the living standards of citizens and supporting the poor, which allows us to reduce the enabling environment for the shadow economy. Since the second half of the twentieth century, many states have recorded in their constitutions that from now on they are social states. Important elements of the social policy of the state are: formation of a social state; establishing decent living wage; avoiding deep social differentiation of society; minimization of shadow operations in the system of labor relations, youth employment.

4) Business relations mean observance of the basic principles of interaction of the government and private business. These principles suggest creation of equal competition conditions for all market participants and supporting the most vulnerable economic entities. The most important principles of business relations are: equivalence of business and power and state support of small and medium business.

5) The punitive function of the state is aimed at combating the criminal economy that is most dangerous for society. The implementation of the punitive function implies toughening of punitive measures in the case of: traditional crime; the corrupt bureaucracy and shadow operations of oligarchic structures.

6) The educational function of the state is associated with profound cultural changes that hinder the spread of the shadow economy. It is implemented through the education system and the media. The important elements of this function are: formation of a culture of orderliness; discussing the cult of violence, permissiveness, drug trafficking, prostitution; formation of a national idea based on the moral principles of society.

7) Cooperation with civil society institutions allows attracting the most active social forces to influence the shadow economy. Elements of civil society were formed long time ago, but only now it is possible to talk about its definite maturity and significant ascending of its role. Civil society is a combination of associations and unions, not connected by vertical hierarchical dependencies, but mainly by horizontal-network relationships. Important ways of cooperation with its elements are: coordination of the activities of local government and law enforcement agencies; using materials of independent investigations in economic crime conducted by the media; cooperation within the framework of the system of social partnership with

organizations of entrepreneurs and trade unions of workers on social policy issues, formation of entrepreneurial corporate ethics; cooperation with public and religious organizations in the sphere of spiritual education of society; cooperation with public chambers.

8) Cooperation with international organizations allows for a coherent policy towards the shadow economy on a global scale. First of all, official (interstate) organizations should be listed: United Nations, International Monetary Fund, World Bank, Interpol and others. The main elements of international cooperation to overcome shadow economy include: development of general principles for combating money laundering, corruption, fraud; exchange of operational information on economic crime, joint investigations; exchange of experience in the framework of international conferences, seminars, exercises; consideration of the opinion of authoritative international organizations on the state of the shadow economy.

The state impact on the shadow economy should be carried out in a differentiated way. The forced illegal economy should be mainly indirectly affected (through the creation of a favorable market environment), while the criminal economy is mainly influenced by administrative methods on the basis of constitutional law (in the form of decrees, programs, orders) with the active participation of law enforcement agencies.

References

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